MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2021/2022

BAW4624 – TAX COMPLIANCE

(All Sections / Groups)

8 AUGUST 2022
9 a.m. – 12 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 14 pages excluding the cover page with **FIVE** (5) Questions only.

2. Attempt **ALL** questions in English. The distribution of the marks for each question is given.

3. Please write all your answers in the Answer Booklet provided.

All questions are based on the Income Tax Act 1967 (as amended), Real Property Gains Tax Act 1976 (as amended), Sales & Service Tax Act 2018 and Stamp Act 1949 (as amended) and legislations passed up to the year 2021.

QUESTION 1

You are the senior tax consultant at Shahrul & Co., a firm of ICAEW Chartered Accountants. Daniel is your firm's new client, and your firm has assigned you to help him with his tax affairs. At the first meeting, Daniel informed you that he was not well versed with accounting and tax matters. Therefore, he was concerned about the standards that apply to your firm in handling the client. Daniel also disclosed that his uncle is your client and requested you to provide his uncle's tax returns to convince him that you have the competency to perform the tasks.

Required:

Based on the above scenario:

(i) Identify THREE (3) safeguards that should be practiced in your firm. (3 marks)

(ii) Explain ONE (1) fundamental principle and ONE (1) type of ethical threat that is most threatened here.

(4 marks)

[Total: 7 marks]

QUESTION 2

(a) Pro Consultant Sdn. Bhd., a service provider of information technology services, is a tax registrant under the Service Tax Act 2018. The company provided consulting services to Island Sdn. Bhd. (Island). The information pertaining to the taxable services provided to Island is as follows:

Service Value (RM)	Invoice date	Payment date
42,800	15 October 2021	1 November 2021

The service tax was only remitted to the Royal Malaysian Customs on 3 February 2022 by Pro Consultant Sdn Bhd.

Required:

(i) Determine the taxable period for the above transaction by Pro Consultant Sdn. Bhd.

(1 mark)

(ii) Compute the service tax amount and penalty (if any) by Pro Consultant Sdn. Bhd. Assuming the rate of service tax is 6%.

(3 marks)

Continued...

(b) The following transactions are provided:

i. Echo Sdn. Bhd. is a manufacturing company with an annual turnover of RM600,000 in year 2021. It exported its taxable goods to Indonesia and Singapore.
ii. Micro Sdn. Bhd. is a sub-contractor but not a sales tax registrant , received processing fees from its contractor for the year 2021.
iii. Macro Sdn. Bhd. is a manufacturing firm with an annual turnover of RM510,000 in year 2021. It donated its taxable goods to charitable institutions and sold taxable goods to its subsidiary at lower than the market price.

Required:

Determine whether or not the above transactions will be subject to sales tax. Justify your answer.

(4 marks)

(c) Malik, a Malaysian citizen, purchased his first residential house for RM180,000 and signed the sales and purchase agreement on 12 January 2021. He paid a 10% down payment and the balance was financed by a housing loan from Public Bank. Later, Malik purchased his second residential house for RM250,000 and the sales and purchase agreement was signed on 2 December 2021. He paid 30% of the deposit for his second house, and the balance was financed by a home loan from Hong Leong Bank.

Required:

Calculate the stamp duty payable on the acquisition of the assets and the loan arrangements.

(6 marks)

(d) National Insurance Contributions (NICs) is one of tax revenue for the United Kingdom (UK) tax authority namely Her Majesty's Revenue and Customs (HMRC).

Required:

Briefly explain what National Insurance Contributions is.

(1 mark)

[Total: 15 marks]

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QUESTION 3

(a) On 15 July 2019, Ruby signed a contract with TeoBrothers Sdn Bhd. to purchase a semi-detached house in Klebang Besar, Melaka, for RM523,000. She finalised the payment on 30 September 2019, and the vendor delivered the house to her on 15 October 2019. To buy the house, Ruby paid RM6,900 in stamp duty and RM5,300 in legal fees. She spent RM97,000 on house renovation after the purchase.

She received RM26,700 in compensation from the developer for deficiencies in the house in February 2020, and an additional RM8,400 in reimbursement for flood losses from an insurance company in March 2020. In November 2020, Ruby negotiated the sale of the house and received a RM12,000 deposit, but the payment was forfeited when the buyer failed to complete the transaction.

Ruby also spent RM18,000 on legal fees when her ex-husband filed a claim against her house title. Alan, a friend of Ruby, agreed to acquire the house for RM670,000 on 1 April 2021, and the sales and purchase agreement was signed on that day. The payment was fulfilled on 20 June 2021, and the title was transferred to Alan on 19 July 2021. In order to sell the house, Ruby had spent RM9,100 on valuation, RM2,000 on advertising, and RM20,440 on brokerage fee.

Ruby had paid RM89,000 in interest on the mortgage loan she had taken out to buy the house, and RM6,000 in legal fees to a lawyer who advised and managed the sale.

Required:

In relation to the Real Property Gains Tax 1976, compute the chargeable gain arising from the disposal of the property.

(10 marks)

(b) Aliya, a tax resident, died domiciled in Malaysia on 30 April 2021 due to a brain haemorrhage. Aliya operated two businesses in Malaysia when she was still alive. In Aliya's will, her youngest brother, Alam, has been appointed as the estate executor with a remuneration of RM60,000 in year 2021. As a beneficiary of Aliya, Alam also receives an RM45,000 annuity. Alam has been a Malaysian tax resident since 2019. Aliya's sources of income for 2021 are as follows:

i. Printing business in Sepang, Selangor: Adjusted income of RM340,000 for the year ended 31 December 2021. The business is eligible to claim capital allowance of RM68,500.

ii. Toy shop in Banting, Selangor: Adjusted income of RM125,000 for the year ended 31 December 2021. The business has a loss brought forward from the year of assessment 2020 amounting to RM16,000. For the year 2021, the business has disposed of the asset that generated a balancing charge of RM19,000. Capital allowance for the year is RM21,000.

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iii. Interest income of RM22,000 was received from Aliya's Malaysia investments (not in fixed deposit). The interest was paid twice in a year, in which the first payment of RM10,000 was received on 31 January 2021 and the balance was received on 31 August 2021.

iv. Gross dividend of RM9,000 was received from Aliya's saving in Tabung Haji on 1 March 2021.

Other information:

Aliya is unmarried. In 2021, she spent RM10,800 on paying medical expenses for her parents. She also paid medical insurance for herself, which amounted to RM4,000 per annum. She bought two laptops for RM8,200. Before Aliya passed away, she made a cash donation to approved charitable institutions amounting to RM20,500 on 1 January 2021.

Required:

You have been appointed by Alam to calculate the chargeable income for Aliya and her estate for the year of assessment 2021. Show all relevant workings.

Note: Indicate "nil" or "exempt" for item(s) with no transaction value in correct column (deceased / executor).

(7 marks)

(c) Mandy Lee, 60 years old, is a Malaysian citizen. She has been diagnosed with cancer; thus, she intends to distribute part of her properties to her two children. She plans to make the following arrangements with regard to her properties:

- The eldest son, Joshua Lim, who is 30 years old and unmarried, would receive two restaurants and the business income derived from the restaurants. Mandy Lee, on the other hand, reserves the right to use the income to fund her treatments as needed.

- The second daughter, Jess Lim, aged 23 and unmarried, would receive a two-storey shop lot located in Selangor and rental income derived from the property. Jess Lim is allowed to collect the rental income and use the money to finance her daily expenses.

Required:

Explain who will be assessable to income tax on the income arising from the above transferred properties.

(5 marks)

[Total: 22 marks]

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QUESTION 4

Dr. Jennifer is a Malaysian tax resident. She was offered a position as the service director of TopAire Corporation Bhd. (TopAire) effective from 1 August 2018. She earns RM16,000 per month and contributes 11% of her salary into her Employee Provident Fund account every month. She received a bonus equivalent to one month's salary on 31 January 2021.

Dr Jennifer was given an imported reconditioned car costing RM130,000 (without fuel) and a driver with a monthly salary of RM2,100 from 1 April 2019 onwards. The car was first registered in Malaysia on 16 March 2019.

Dr. Jennifer underwent right hip surgery in August 2021, and the employer covered the RM62,000 medical bill. In addition, she was also provided an unfurnished terrace by her employer for the whole year of 2021. The monthly rental of the house is RM2,000. Throughout the year, she spent RM12,500 on utilities and paid RM5,400 for her credit card spending. All these expenses were reimbursed by the employer subsequently.

In January 2021, TopAire offered Dr Jennifer an employee share option to acquire 8,000 ordinary shares in TopAire at RM1.00 per share. The market value at the time when the share option was offered was RM4.00 per share. Dr Jennifer exercised the option and sold the shares for RM5 per share in November 2021.

Other information about Dr Jennifer in year 2021 as follows:

1. Dr Jennifer is married to John and the couple has two children. Their first child, Angie, 15 years old, is disabled and currently studying in a special school catering for disabled children in Selangor. Their second child, Bonnie, 5 years old, is attending kindergarten class.
2. During the year, Dr Jennifer paid a life insurance premium of RM3,300.
3. She spent RM9,000 on her parents' medical expenses. Both of her parents are tax residents for the year of assessment 2021.
4. She purchased a new Samsung phone worth RM3,000 for herself. Besides, she also bought books and magazines costing RM1,900 for her children.
5. She incurred expenses of broadband subscription (under Dr Jennifer's name) of RM1,200.

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During a meeting in December 2021, Dr Jennifer has been assigned to head the taskforce to oversee a project in Thailand for three months starting from 1 April 2022 to 30 June 2022. During these three months, her remuneration and personal expenses in Thailand will be borne by her employer in Malaysia.

Dr Jennifer's husband, John, working as an accountant with JYT Engineering Bhd. (the Company) since 1 January 2005. He retired from his position on 31 January 2021 when the company went through a reorganization. He was 49 years old when he retired and was paid a gratuity of RM100,000 by the company. The gratuity paid to John complied with the agreement concluded between the Company and him.

In February 2021, John set-up his own practice, John & Co, with his best friend, Simon. Both of them have agreed to share the profit and loss equally. The partnership business closes its accounts on 31 December annually. Each partners contributed RM200,000 of capital into the partnership and was paid RM833 per month of interest on their capital contribution.

Both John and Simon have received the following benefits from the partnership business in year 2021:

	John	**Simon**
	RM	**RM**
Salary per month	2,500	2,000
Allowance per month	400	900

In the year 2021, the partnership paid private expenses for John and Simon amounting to RM2,600 and RM3,000 respectively.

Additional information:

1. The provisional adjusted income for the year ended 31 December 2021 was RM400,000.
2. The capital allowance on the partnership's assets for the year of assessment 2021 was RM35,000.
3. The partnership made a cash donation amounting to RM4,000 to Caring Home (an approved institution) on 1 August 2021.

Required:

(i) Calculate the income tax payable by Dr Jennifer under separate assessment after taking into account all taxable income and reliefs available under the Income Tax Act 1967 (as amended) for the year of assessment 2021. Assume Dr Jennifer claims the child reliefs. Round all figures to the nearest RM.

Note: All items stated in the question are to be included in the computation. Where the item is not taxable or deductible, indicate 'nil' or "exempt' in the computation. (20 marks)

Continued...

(ii) Discuss the taxability of Dr Jennifer's remuneration for the 3-month job to be performed in Thailand with reference to the Income Tax Act 1967 (as amended) (5 marks)

(iii) Explain, with reasons whether the gratuity of RM100,000 received by John on his retirement on 31 January 2021 is taxable under the Income Tax Act 1967 (as amended). (5 marks)

(iv) Calculate the divisible and statutory income of John and Simon from the partnership under the Income Tax Act 1967 (as amended) for the year of assessment 2021. (10 marks)

[Total: 40 marks]

QUESTION 5

Sri Langat Sdn. Bhd. (SLSB) is a resident company carrying on the business of manufacturing welding and soldering equipment and supplies. The company closes its accounts to 30 September annually. The company's paid up capital at the beginning of the financial year 2021 was RM3.2 million. SLSB's statement of profit or loss for the year ended 30 September 2021 is as follows:

Sri Langat Sdn. Bhd.
Statement of profit or loss for the year ended 30 September 2021

	Note	RM	RM
Revenue			4,823,000
Less: Cost of sales	1		(2,999,000)
Gross income			1,824,000
Add: Other income	2		313,000
			2,137,000
Less: Expenses			
Staff costs	3	743,000	
Selling and administration costs	4	684,100	
Professional fees	5	114,600	
Miscellaneous cost	6	672,200	
Donations	7	85,000	(2,298,900)
Net loss before taxation			(161,900)

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Notes to the accounts:

1. Cost of sales included the following expenses:

	RM
Depreciation expense of the assets	218,000
Freight charges on imports paid to Malaysian companies	110,000
Foreign exchange loss (realised) for the acquisition of materials	84,300
Inventories written-off	92,500

2. Other income was made up of the following items:

	RM
Rental income received from a factory building in Perak	110,100
Gains on disposal of SLSB's old storeroom in Klang, Selangor	100,800
Interest income received from investment	32,100
Gross dividend received from share investment listed in Bursa Malaysia	70,000
	313,000

3. Staff costs included:

	RM
Salaries paid to employees	426,000
Staff amenities	106,500
Contribution to employees' provident fund at 21% from total salaries of employees	89,460
Training cost provided by the Talent Corp (approved training provider)	21,000

4. Selling and administration costs included the following:

	RM
Advertising expenses (normal)	72,000
Registration of patent for SLSB's new design	41,800
Net royalty payment to an Australian company for technical know-how	99,540
Withholding tax on royalty payment to the Australian company (SLSB remitted the withholding tax to IRB after a week the payment made to the Australian company)	11,060

5. Professional fees included the following:

	RM
Statutory audit fees	36,700
Secretarial fees and tax filing fees	29,000
Legal fee for preparing a contract renewal for an existing customer	48,900
	114,600

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6. Miscellaneous costs included the following:

	RM
General provision for doubtful debts	16,200
Bad debts written-off	13,700
Keyman insurance under an endowment policy for the managing director	15,000
Interest on the leased assets	2,800
Lease rental for the leased assets	96,700
Interest on loan for the acquisition of shares listed in Bursa Malaysia	7,400
Quit rents and assessment fees for the factory building in Perak.	11,200
Annual general meeting expenses	56,000

7. Donations and sponsorships consisted of the following:

	RM
Contribution of computers to an approved orphanage home	35,000
Cash donation to an approved old folk home	50,000
	85,000

Other information:

For the year of assessment 2021, SLSB was entitled to claim an industrial building allowance as well as a capital allowance amounting to RM57,000 and RM126,000 respectively. SLSB had also disposed of an old store room that generated a balancing charge of RM188,500. SLSB did not acquire any new assets in the year of assessment 2021.

Required:

Commencing with the net loss before taxation figure, compute the income tax payable by SLSB for the year of assessment 2021 based on the tax rate of 24%. Round all figures to the nearest RM.

Note: You should indicate by the use of the word "nil" or "exempt" for any item referred to in the question for which no adjusting entry needs to be made in the final computation.

[Total: 16 marks]

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APPENDIX

TAX RATES AND ALLOWANCES

The following tax rates, allowances and values are to be used in answering the questions.

- **Income tax rates for resident individuals for the Year of Assessment (YA) 2021.**

Category	Chargeable Income	Calculations (RM)	Rate %	Tax (RM)
A	0 - 5,000	On the First 5,000	0	0
B	5,001 - 20,000	On the First 5,000		0
		Next 15,000	1	150
C	20,001 - 35,000	On the First 20,000		150
		Next 15,000	3	450
D	35,001 - 50,000	On the First 35,000		600
		Next 15,000	8	1,200
E	50,001 - 70,000	On the First 50,000		1,800
		Next 20,000	13	2,600
F	70,001 - 100,000	On the First 70,000		4,400
		Next 30,000	21	6,300
G	100,001 - 250,000	On the First 100,000		10,700
		Next 150,000	24	36,000
H	250,001 - 400,000	On the First 250,000		46,700
		Next 150,000	24.5	36,750
I	400,001 - 600,000	On the First 400,000		83,450
		Next 200,000	25	50,000
J	600,001 - 1,000,000	On the First 600,000		133,450
		Next 400,000	26	104,000
K	1,000,001 - 2,000,000	On the First 1,000,000		237,450
		Next 1,000,000	28	280,000
L	Exceeding 2,000,000	On the First 2,000,000		517,450
		Next ringgit	30	.....

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- **Reliefs for the Year of Assessment (YA) 2021.**

	RM
Personal relief	9,000
Disabled taxpayer (additional relief)	6,000
Spouse relief	4,000
Disabled spouse relief (additional relief)	5,000
Medical expenses for parents	8,000
1. Medical expenses for serious diseases 2. Vaccination expenses for self, spouse and child. (Restricted to RM1,000) 3. Medical expenses for fertility treatment for self or spouse 4. (i) Complete medical examination for self, spouse, child as defined by the Malaysian Medical Council (MMC). (ii) COVID-19 detection test including purchase of self-detection test kit for self, spouse, child. (Restricted to RM1,000)	8,000
Basic supporting equipment for disabled taxpayer, spouse, children, or parents	6,000
Child relief (below 18 years old) - Each - Disabled	 2,000 6,000
Child relief (over 18 years old and studying in higher learning institutions) - Each - Disabled	 8,000 14,000
Amount deposited into SSPN for child	8,000
Life insurance premium	3,000
EPF contributions	4,000
Premium on deferred annuity contract and private retirement scheme	3,000
Premium on medical/education insurance	3,000
Employee's contribution to SOCSO scheme	250
Education fees paid by taxpayer for his own self-improvement	7,000
Lifestyle expenses	2,500
Additional lifestyle- purchase of personal computer, smartphone or tablet for self, spouse or child	2,500
Breastfeeding equipment	1,000
Fees paid to childcare centre and kindergarten for a child aged 6 years and below	3,000
Payment for accommodation at premises registered with the Commissioner of Tourism and entrance fee to a tourist attraction	1,000

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- **Rebates**

Rebates	RM
Chargeable income <= RM35,000	
Individual	400
Additional relief when wife/husband relief is claimed	400

- **Benefits-in-kind (BIK) scale rates as per Inland Revenue Board (IRB) guidelines**

Cost of car when new	Annual prescribed benefit of motorcar	Annual prescribed benefit of petrol
RM	RM	RM
Up to 50,000	1,200	600
50,001 - 75,000	2,400	900
75,001 - 100,000	3,600	1,200
100,001 - 150,000	5,000	1,500
150,001 - 200,000	7,000	1,800
200,001 - 250,000	9,000	2,100
250,001 - 350,000	15,000	2,400
350,001 - 500,000	21,250	2,700
500,001 and above	25,000	3,000

The value of the car benefit equivalent to half of the above rates is taken if the car provided is more than five years old.

- **Prescribed value of household furnishings, apparatus and appliances**

Category	Type of Benefit	Annual Prescribed value of BIK provided RM
1	Semi-furnished with furniture in the lounge, dining room or bedroom.	840
2	Semi-furnished with furniture as in Category 1 and one or two of the following: • air-conditioners • curtains and alike • carpets	1,680
3	Fully furnished with benefits as in Category 1 and 2 plus one or more of kitchen equipment, crockery, utensils and appliances.	3,360

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Other benefits	RM per month
Household servant	400
Gardener	300
Driver	600

- **Rates of Capital Allowances**

	Motor Vehicles/ Heavy Machinery	Plant & Machinery (general)	Office Equipment, Furniture & Fittings, Others	Industrial Building
Initial allowance	20%	20%	20%	10%
Annual allowance	20%	14%	10%	3%

- **Real property gains tax**

DISPOSAL PERIOD	TAX RATE FOR YEAR OF ASSESSMENT 2021		
	PART I Other than Part II and Part III [eg: individual, partnership, executor of the estate of a deceased person who is a citizen or a permanent resident]	PART II Company incorporated in Malaysia or trustee of a trust	PART III Individual who is not a citizen and not a permanent resident, or an executor of the estate of a deceased person who is not citizen and not a permanent resident, or a company not incorporated in Malaysia.
Disposal within 3 years after the date of acquisition	30%	30%	30%
Disposal in the 4th year after the date of acquisition	20%	20%	30%
Disposal in the 5th year after the date of acquisition	15%	15%	30%
Disposal in the 6th year after the date of acquisition	5%	10%	10%

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- **Sales and service tax**

	Rate %
Sales tax	10
Service tax	6

- **Stamp duty**

Rates of duty under the First Schedule
Conveyance, assignment, transfer or absolute bill of sale

	Rate %
Sale of property - from 1.7.2019 onwards	
First RM100,000	1
RM100,001 to RM500,000	2
RM500,001 to RM1,000,000	3
>RM1,000,000	4
House loan agreement	0.5
Transfer of shares or marketable securities	0.3
Transfer of shares or marketable securities by using contract note	0.1

End of paper.